

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: James J. Hoecker, Chairman;
William L. Massey, Linda Breathitt,
and Curt Hébert, Jr.

California Independent System Operator
Corporation

Docket No. ER01-607-000

ORDER ACCEPTING TARIFF AMENDMENT ON AN EMERGENCY BASIS

(Issued December 8, 2000)

In this order, we approve tariff revisions submitted by the California Independent System Operator Corporation (ISO) as tariff Amendment No. 33. Amendment No. 33 addresses the ISO's need to obtain generation resources in order to maintain reliability of the ISO's transmission system.

Proposed Amendment No. 33

The ISO proposes to modify the ISO Tariff in three respects. First the ISO would replace the current cap on Imbalance Energy bids with an interim break point based on the price mitigation proposal in the Commission's November 1 Order. The ISO states that Amendment No. 33 would increase the amount of Generation available in real-time by ensuring Generators the ability to recover operating costs when they are chosen to supply Imbalance Energy. The ISO states that its scheduling system will not reject Energy bids priced in excess of the \$250/MWh price cap, but will evaluate those bids in price merit order. However, if the ISO issues Dispatch instructions to Scheduling Coordinators for Energy bids in excess of the \$250 break point, those bids will not set the Market Clearing Price for Imbalance Energy. Rather, those Scheduling Coordinators will be paid in accordance with their bids.

Second, the ISO proposes in Amendment No. 33 to assess penalties against Participating Generators that refuse to operate in response to an ISO Dispatch instruction during a System Emergency. The ISO explains that those entities would be charged an amount equal to twice the highest price that the ISO paid for Energy for each hour in which the Participating Generator failed to respond. In addition, if, during that hour, the ISO curtailed Load to manage the System Emergency other than Load that has not been designated by agreement or regulation as interruptible, the Participating Generator would pay an additional penalty of \$1000/MWh for the Energy that it failed to deliver. The penalties would not apply if the Participating Generator notifies the ISO (and subsequently

verifies) that its Generating Unit, System Unit or System Resource was physically unable to operate or would violate a legal restriction that could not be waived.

Finally, Amendment No. 33 would reduce reliance on the ISO's real-time Imbalance Energy market by assigning to Scheduling Coordinators who rely on that market to serve their Loads the ISO's costs of obtaining Energy through bids above the proposed break point or through out-of-market Dispatches when bids are insufficient. The ISO states that these costs would be allocated to Scheduling Coordinators based on the net amount, for each of them, of the Demand that appears unscheduled in real time (under-scheduled Load) and Generation that is scheduled in the forward markets but does not appear in real time (over-scheduled Generation).

The ISO explains that it is proposing Amendment No. 33 in response to an immediate crisis in California's markets. The ISO states that it has been forced to declare Stage 2 Emergencies for the previous four days, and sees no immediate relief. The ISO requests that the Commission allow Amendment No. 33 to become effective today, on December 8, 2000, as of the hour beginning 4:00 p.m., Pacific Standard Time, except for the provisions regarding cost allocation for out-of-market Dispatches, for which the ISO requests an effective date of December 10, 2000.

Given the nature of the ISO's request and the need for the most expedient resolution possible, the notice requirements are hereby waived. Accordingly, notice of the filing was not issued.

Discussion

In light of the extraordinary circumstances occurring in California and, in particular, the ISO's markets, we hereby authorize the ISO to implement its proposed tariff changes, effective as requested by the ISO.

The Commission orders:

- (A) For good cause, the notice requirements are hereby waived.
- (B) The ISO's proposed tariff changes are hereby accepted for filing to become effective as requested.
- (C) The ISO is hereby informed that the rate schedule designations will be supplied in a future order. Consistent with our prior orders, the ISO is hereby directed to promptly post the proposed tariff sheets as revised in this order on the Western Energy Network.

By the Commission. Commissioner Hébert concurred with a separate statement attached.

(S E A L)

David P. Boergers,
Secretary.

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HÉBERT, Commissioner, *concurring*:

I have considerable reservations about the Commission's acceptance today of Amendment No. 33 – both procedurally and substantively. Nevertheless, a \$250/MWh soft price cap is superior to a \$150 soft cap or a \$250 hard cap (though inferior to no price cap at all). Moreover, I share the sentiment underlying both the ISO's filing and the Commission's acceptance of its filing – that price restraints of the type in place in California inhibit the entry of badly-needed generation into capacity-starved markets and lead precisely to the type of emergency circumstances that, unfortunately, are now plaguing California energy markets.

I respectfully concur.

Curt L. Hébert, Jr.
Commissioner